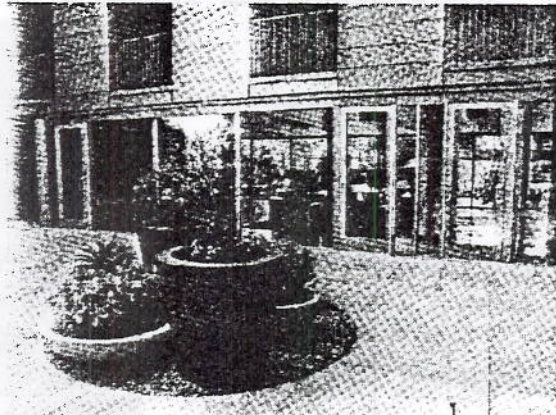


Underwriting Strategies for PSH



Villas at Gower, Hollywood, CA

LACDMH's 5th Annual Housing Institute

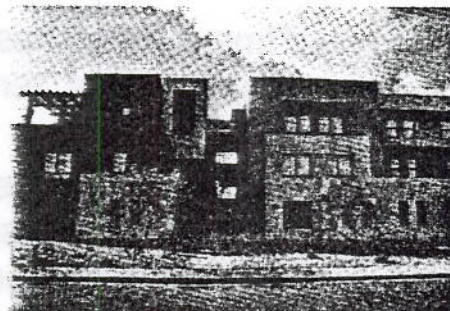
Debbie Burkart, National Equity Fund, debbieb@nefinc.org

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LISC Created NEF in 1987

- \$8.8 Billion LIHTC Equity
- 2,200+ Projects
- 43 States & D.C.
- \$1.6 Billion Invested in Supportive Housing for over 12,000 Units



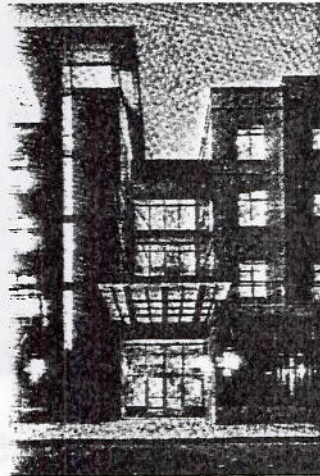
Victory Place III, 75 units Veterans PSH, Phoenix, AZ

2

Investors like PSH

Strengths of PSH:

1. Little Hard Debt
2. Large Reserves
3. Rent Subsidies
4. No Market Risk
5. Proven product type



Compass PSH, Renton, WA

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Business Issues of Blending Rent Subsidies & LIHTC \$\$

- Time mismatches between capital funding requirements, rental assistance and service funding
 - 15-year tax credit partnership life, yet McKinney subsidies (S+C, SHP) 3, 5, 10-yr contracts; annual service funding
- Challenges of Section 8 and VASH
 - 15-year contracts subject to "annual appropriations"

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Underwriting Challenges in SH

■ Subsidy Underwriting:

- "Subject to annual appropriations"
Projects need Transition reserves to cover rent subsidy allocation risk, not just contract term risk.
- Investors leery that the FMR premium over LIHTC rents will be in place for 15-years to amortize hard debt
- More focus on QAP and Lender(s) required income, rent, and targeting restrictions, and "what if" scenarios
- Is service provision a loan or LIHTC requirement? Under what conditions?

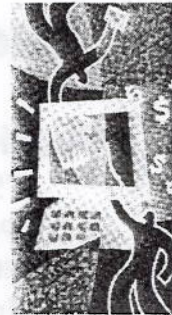
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Be Careful in Applications!

- Various capital funding sources have different rent & income restrictions.
- Don't over commit in your applications!
- Always look at what is most restrictive on allowable income and rent
 - Want to negotiate flexibility upfront for transition plan if the subsidy is terminated
- Always look at what the target population's income realistically will be to establish post-Section 8 rents affordable to that population
 - A typical dual diagnosed mentally-ill, chemically dependent, homeless, HIV/AIDS person or a TANF family is not typically going to be at 50% of AMI

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How Funders assist SH Underwriting & minimize Transition Reserves



- Give relief by waiving deep targeting if rent subsidies are cancelled or not renewed due to no fault of the developer
- Allow Delayed Equity Pay-ins to boost equity raise to fund reserves
- If soft loans amortizing, have documents allow extension of amortization period or suspended payments if subsidies cancelled by HUD for budget reasons

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CA – Villas at Gower "Escape Clause"

Transition Scenario – S8 Expires
MHP-Supportive Housing Loan Program

Amended regulatory agreement to allow:

- rental increase to extent necessary to maintain project feasibility (max. 50% AMI), and
- a population and service provision waiver.

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CA-MHP SH Loan Program

Rent Waiver:

- "If the Project-based rental assistance is terminated, Rents for Units may be increased above the levels allowed but only to minimum extent required for Fiscal Integrity, as determined by the Department. In addition Rents for such Units..shall not..be increased to an amount in excess of 30% of 50% of AMI.."

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CA-MHP SH Loan Program

Targeting Population Waiver:

- "Should the Department determine that rent increases pursuant to the paragraph directly above make retaining the originally targeted tenant population infeasible, the Dept. will allow changes in the target population to the minimum extent necessary to accommodate the new rent levels. In such an event the Dept will also allow changes to the services plan to reflect any change in the target population."

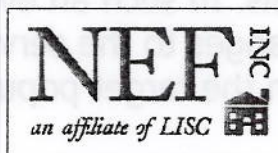
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With Partnerships We Succeed



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